

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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June 19, 2007

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: AC# 3-OKU-J3 – Health Care & Retirement Corporation of America
d/b/a Oakmont of Union Nursing and ICF

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written over a horizontal line.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**HEALTH CARE & RETIREMENT
CORPORATION OF AMERICA
D/B/A OAKMONT OF UNION NURSING AND ICF
UNION, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-OKU-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 27, 2007

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 27, 2007

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

OAKMONT OF UNION NURSING AND ICF
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-OKU-J3

10/01/04-
09/30/05

Adjusted Reimbursement Rate	\$123.09
Interim Reimbursement Rate (1)	<u>122.81</u>
Increase in Reimbursement Rate	\$ <u><u>.28</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of January 24, 2007

OAKMONT OF UNION NURSING AND ICF
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-OKU-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 61.32	\$ 70.36	
Dietary		9.61	12.42	
Laundry/Housekeeping/Maintenance		<u>7.47</u>	<u>11.28</u>	
Subtotal	<u>\$6.58</u>	78.40	94.06	\$ 78.40
Administration & Medical Records	<u>\$2.19</u>	<u>12.46</u>	<u>14.65</u>	<u>12.46</u>
Subtotal		90.86	<u>\$108.71</u>	90.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.60		2.60
Special Services		.20		.20
Medical Supplies & Oxygen		3.10		3.10
Taxes and Insurance		11.28		11.28
Legal Fees		<u>.07</u>		<u>.07</u>
TOTAL		<u>\$108.11</u>		108.11
Inflation Factor (4.70%)				5.08
Cost of Capital				8.15
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.19
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.02)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$123.09</u>

OAKMONT OF UNION NURSING AND ICF
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,014,760	\$ 39,418 (8) 73 (10)	\$ 71 (1) 15,915 (4) 20,199 (4) 6,195 (5) 5,752 (5) 25,788 (9) 31,647 (9) 18,116 (10)	\$1,930,568
Dietary	302,424	128,807 (8)	421 (5) 128,285 (9) 42 (10)	302,483
Laundry	80,693	1,221 (5) 34,369 (8)	5,778 (6) 20,742 (9)	89,763
Housekeeping	74,195	51,026 (8)	774 (5) 53,166 (9)	71,281
Maintenance	75,931	51,926 (8)	61 (5) 701 (6) 50,698 (9) 2,140 (10)	74,257
Administration & Medical Records	489,168	633 (3) 2,492 (3) 188 (5) 2,210 (6) 81,988 (8) 14,288 (8)	22,861 (4) 19 (4) 16,316 (5) 78 (7) 69,474 (9) 15,083 (9) 74,769 (10)	392,367
Utilities	81,601	54,693 (8)	969 (6) 53,040 (9) 473 (10)	81,812
Special Services	6,297	198 (6)	60 (5) 157 (7)	6,278

OAKMONT OF UNION NURSING AND ICF
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	99,640	13 (5) 225 (7) 42,948 (8)	3,125 (3) 41,997 (9)	97,704
Taxes and Insurance	168,059	320,293 (2) 1,043 (6) 98,446 (8) 86 (10)	232,949 (9)	354,978
Legal Fees	5,662	1,102 (8)	619 (9) 4,065 (10)	2,080
Cost of Capital	222,778	2,375 (6) 73,673 (8) 39,438 (11)	54,633 (1) 13,316 (9) 13,842 (10)	256,473
Subtotal	3,621,208	1,043,172	1,004,336	3,660,044
Ancillary	128,921	70 (7)	-	128,991
Nonallowable	1,365,082	54,704 (1) 58,994 (4) 28,157 (5) 1,622 (6) 736,804 (9) 113,288 (10)	320,293 (2) 60 (7) 672,684 (8) 39,438 (11)	1,326,176
Total Operating Expenses	<u>\$5,115,211</u>	<u>\$2,036,811</u>	<u>\$2,036,811</u>	<u>\$5,115,211</u>
Total Patient Days	<u>30,919</u>	<u>562 (12)</u>	<u>-</u>	<u>31,481</u>

Total Beds 88

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$597,002	
	Other Equity	495,623	
	Nonallowable	54,704	
	Fixed Assets		\$1,092,625
	Restorative		71
	Cost of Capital		54,633
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Taxes and Insurance	320,293	
	Nonallowable		320,293
	To adjust liability insurance expense HIM-15-1, Section 2304		
3	Administration	633	
	Medical Records	2,492	
	Medical Supplies		3,125
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Nonallowable	58,994	
	Nursing		15,915
	Restorative		20,199
	Administration		22,861
	Medical Records		19
	To reclassify salaries to the proper cost center HIM-15-1, Section 2102.3 DH&HS Expense Crosswalk		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
5	Laundry	1,221	
	Medical Records	188	
	Medical Supplies	13	
	Nonallowable	28,157	
	Nursing		6,195
	Restorative		5,752
	Dietary		421
	Housekeeping		774
	Maintenance		61
	Administration		16,316
	Special Services		60
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Administration	2,210	
	Taxes and Insurance	1,043	
	Special Services	198	
	Cost of Capital	2,375	
	Nonallowable	1,622	
	Laundry		5,778
	Maintenance		701
	Utilities		969
	To adjust shared service allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Medical Supplies	225	
	Ancillary	70	
	Administration		78
	Special Services		157
	Nonallowable		60
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Restorative	39,418	
	Dietary	128,807	
	Laundry	34,369	
	Housekeeping	51,026	
	Maintenance	51,926	
	Administration	81,988	
	Medical Records	14,288	
	Legal	1,102	
	Utilities	54,693	
	Taxes and Insurance	98,446	
	Medical Supplies	42,948	
	Cost of Capital	73,673	
	Nonallowable		672,684
	To reverse DH&HS adjustment to remove indirect cost applicable to to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	736,804	
	Nursing		25,788
	Restorative		31,647
	Dietary		128,285
	Laundry		20,742
	Housekeeping		53,166
	Maintenance		50,698
	Administration		69,474
	Medical Records		15,083
	Legal		619
	Utilities		53,040
	Taxes and Insurance		232,949
	Medical Supplies		41,997
	Cost of Capital		13,316
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Restorative	73	
	Taxes and Insurance	86	
	Nonallowable	113,288	
	Nursing		18,116
	Dietary		42
	Maintenance		2,140
	Administration		74,769
	Legal		4,065
	Utilities		473
	Cost of Capital		13,842
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Cost of Capital	39,438	
	Nonallowable		39,438
	To adjust capital return State Plan, Attachment 4.19D		
12	<u>Memo Adjustment:</u> To increase total patient days by 562 to 31,481		
		\$3,129,436	\$3,129,436

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

OAKMONT OF UNION NURSING AND ICF
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>88</u>
Deemed Asset Value	3,625,424
Improvements Since 1981	1,038,058
Accumulated Depreciation at 9/30/03	<u>(1,195,405)</u>
Deemed Depreciated Value	3,468,077
Market Rate of Return	<u>.0531</u>
Total Annual Return	184,155
Return Applicable to Non-Reimbursable Cost Centers	(23,429)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>2,064</u>
Allowable Annual Return	162,790
Depreciation Expense	109,108
Amortization Expense	-
Capital Related Income Offsets	(2,109)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(13,316)</u>
Allowable Cost of Capital Expense	256,473
Total Patient Days (Actual)	<u>31,481</u>
Cost of Capital Per Diem	\$ <u><u>8.15</u></u>

OAKMONT OF UNION NURSING AND ICF
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-OKU-J3

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 4.83
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.82</u>
Reimbursable Cost of Capital Per Diem	\$ 8.15
Cost of Capital Per Diem	<u>8.15</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

2 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$2.98. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.